Assigned to FIN FOR COMMITTEE

ARIZONA STATE SENATE

Fifty-Third Legislature, Second Regular Session

FACT SHEET FOR H.B. 2528

capital gains; income tax subtraction

Purpose

Increases the maximum allowable subtraction from Arizona gross income for net long-term capital gains included in federal adjusted gross income.

Background

Current statute allows for a subtraction to be taken from Arizona gross income for any net long-term capital gain included in federal adjusted gross income if it is derived from an investment in an asset acquired after January 1, 2012. Beginning from and after January 1, 2015, the amount that may be subtracted from Arizona gross income is equal to 25 percent of the amount of the net long-term capital gain included in federal adjusted gross income (A.R.S. § 43-1022).

Prior to 2013, capital gains from the sale of capital assets, such as stocks, bonds and real estate, were not taxed separately under Arizona's income tax statutes, and thus were subject to the same marginal tax rates as other income. Laws 2012, Chapter 343 established the initial deduction on net long-term capital gains at 10 percent in tax year (TY) 2013, which then increased to 20 percent in TY 2014, and has been capped at 25 percent since TY 2015 (JLBC 2017 Tax Handbook).

According to the JLBC, the impact to the state General Fund associated with this legislation would be $6.4 million in FY 2020, $12.9 million in FY 2021, $17.8 million in FY 2022 and $23.2 million in FY 2023. The direct revenue losses associated with this bill would increase in later years as more assets acquired after 2017 are sold. JLBC's analysis does not reflect possible increased economic activity that would not occur absent this legislation.

Provisions

1. Increases the state income tax subtraction for any net long-term capital gain included in federal adjusted gross income, that is derived from an investment in an asset acquired after December 31, 2017, by the following amounts:
   a) 30 percent of the amount included in federal adjusted gross income in TY 2019;
   b) 35 percent in TY 2020;
   c) 40 percent in TY 2021;
   d) 45 percent in TY 2022; and
   e) 50 percent from and after TY 2023.

2. Specifies that an asset received by a transferee through either a gift or the death of a transferor is considered acquired by the transferee when the asset was originally acquired by the transferor.

3. Prohibits a subtraction from being taken on a transferred asset if the date of acquisition cannot be verified.

4. Makes conforming changes.

5. Becomes effective on the general effective date.

<u>House Action</u>

WM	2/14/18	DP	6-3-0-0
3rd Read	2/21/18		35-25-0

Prepared by Senate Research
March 12, 2018
FB/ZD/lb